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# Message Text

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62/12
ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02

STR-08 NEA-10 AGR-20 DRC-01 /225 W
---------- 061486
P 070614Z NOG 73
FM AMEMBASSY MANILA
TO ?SECSTATE WASHDC PRIORITY 9020
INFO AMEMBASSY JAKARTA PRIORITY

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C O R R E C T E D C O P Y --TEXT --

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 6/30/74
TAGS: EAID, EFIN, ID
SUBJECT: PROPOSED ADB LOANS AND TECHNICAL ASSISTANCE GRANT
FOR EAST JAVA SUGAR PROJECT (INDONESIA)

SUMMARY: ADB MANAGEMENT PROPOSES TWO LOANS TOTALING $17.52 MILLION EQUIVALENT ($11.29 MILLION FROM SPECIAL FUNDS RESOURCES AND $6.23 MILLION FROM ORDINARY CAPITAL RESOURCES) TO REPUBLIC OF INDONESIA TO FINANCE FOREX COSTS OF REHABILITATING AND EXPANDING JATIROTO AND SEMBORO SUGAR FACTORIES IN EASTERN JAVA. ALSO PROPOSED IS TECHNICAL ASSISTANCE (TA) GRANT OF $45,000 TO MEET FOREX COSTS OF SERVICES OF SHORT-TERM FINANCIAL MANAGEMENT TEAM TO RECOMMEND IMPROVEMENTS, ON INDUSTRY-WIDE BASIS, IN ACCOUNDING AND FINANCIAL MANAGEMENT SYSTEMS OF
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GOVT. SUGAR ENTERPRISES. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R-87-73 WITH ATTACHMENTS DESCRIBING PROPOSED LOANS AND TA GRANT POUCHED ADDRESSEES OCT. 31. BOARD CONSIDERATION SCHEDULED NOV. 20.

2. ADB MANAGEMENT PROPOSING $11.29 MILLION LOAN FROM SPECIAL FUNDS RESOURCES AND $6.23 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES (TOTAL LOAN FINANCING $17.52 MILLION) TO GOVT OF INDONESIA. PROCEEDS WILL FINANCE FOREX COST OF REHABILITATING AND EXPANDING JATIROTO AND SEMBORO SUGAR FACTORIES IN EAST JAVA, INCLUDING PROCUREMENT OF ANCILLARY RAIL TRANSPORT AND FIELD EQUIPMENT AND CONSULTANT SERVICES FOR ENGINEERING DESIGN, CONSTRUCTION SUPERVISION AND ASSISTANCE FOR IMPROVEMENT OF FACTORY, FIELD AND TRANSPORT OPERATIONS. TA GRANT OF $45,000 IS ALSO PROPOSED FOR PREPARATION OF INDUSTRY-WIDE COST ACCOUNTING AND MANAGEMENT REPORTING SYSTEM BY TEAM OF FINANCIAL EXPERTS. PROPOSED TERMS ARE 40-YEAR AMORTIZATION INCLUDING 10-YEAR GRACE PERIOD, 1.0 PERCENT INTEREST FOR SPECIAL FUNDS LOAN AND 25-YEAR AMORTIZATION INCLUDING 5-YEAR GRACE PERIOD, 7.5 PERCENT INTEREST FOR ORDINARY CAPITAL LOAN. GOVT OF INDONESIA TO BE BORROWER AND PERUSAHAAN NEGARA PERKEBUNAN (PNP) XXIV -- GOVERNMENT-OWNED PLANTATION ENTERPRISE -- TO BE EXECUTING AGENCY. GOVT WILL RELEND PROCEEDS OF LOANS TO PNP XXIV ON TERMS AND CONDITIONS ACCEPTABLE TO BANK. (REPAYMENT PERIOD EXPECTED TO BE 15 YEARS, INCLUDING 5-YEARS GRACE, 12 PERCENT INTEREST, WITH HANDLING FEE OF UP TO ONE PERCENT PER ANNUM FOR BANK BUMI DAYA.)

3. ENTIRE INDONESIAN SUGAR INDUSTRY IS LOCATED ON ISLAND OF JAVA AND IS CONCENTRATED IN CENTRAL AND EASTERN PARTS. IN 1930, INDONESIA PRODUCED NEARLY 3 MILLION TONS OF SUGAR, PROCESSED AT 180 SUGAR FACTORIES, MOSTLY FOR EXPORT. AFTER SHARP DECLINE DURING WORLD ECONOMIC DEPRESSION, ANNUAL SUGAR PRODUCTION AVERAGED 1.4-1.5 MILLION TONS IN 1937-1940. IN 1972, PRODUCTION TOTALED 890,000 TONS PRODUCED AT 55 FACTORIES. SINCE 1966, SUGAR EXPORTS HAVE CEASED AND INCREASING IMPORTS, AVERAGING 120,000 TONS IN 1970-1972, HAVE BEEN NECESSARY TO MEED DOMESTIC DEMAND. OF EXISTING 55 FACTORIES, 48 BELONG TO GOVT ESTATE SECTOR AND ARE OPERATED AS EIGHT STATE ENTERPRISES (PNPS). INDUSTRY
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EMPLOYS ABOUT 365,000 MEN AND WOMEN IN FIELDS AND 55,000 IN FACTORIES. MOST FACTORIES ARE AT LEAST 40 YEARS OLD AND LITTLE REPLACEMENT IN PROCESSING EQUIPMENT AND TRANSPORT FACILITIES HAS BEEN MADE SINCE 1941, MAKING IT INCREASINGLY DIFFICULT FOR MANY FACTORIES TO MAINTAIN PRODUCTION LEVELS AND OPERATIONAL EFFICIENCY.

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4. IN 1971 AND 1972N COMPREHENSIVE SURVEY, COMMISSIONED BY UNDP WITH IBRD AS EXECUTING AGENCY, WAS UNDERTAKEN BY CONSORTIUM OF CONSULTANTS FROM UNITED KINGDOM. MAIN OBJECTIVE OF SURVEY WAS FORMULATION OF TEN-YEAR REHABILITATION PROGRAM TO ENABLE SUGAR INDUSTRY TO MEET DOMESTIC DEMAND AT LEAST COSTS TO ECONOMY. SUBSEQUENTLY, FOLLOWING TRIPARTITE DISCUSSIONS BY BANK WITH GOVT AND IBRD, IT WAS AGREED THAT WORLD BANK WOULD DEVELOP AND FINANCE EXPANSION AND REHABILITATION OF SUITABLY FACTORY UNITS OF SIX OF EIGHT STATE PNPS OPERATING IN SUGAR SECTOR AND ADB WOULD ASSIST UNITS OF REMAINING TWO (PNPS XXIV AND XXV). ON JUNE 21, 1973, IDA APPROVED $50 MILLION CREDIT FOR MAJOR EXPANSION OF THREE FACTORIES AND MINOR EXPANSION AD REHABILITATION OF SIX ADDITIONAL FACTORIES. IDA FINANCING ALSO COVERS PROJECT PREPARATION FOR 12 FACTOREIS (INCLUDING REHABILITATION OF SIX), FEASIBILITY STUDIES FOR POSSIBLE PROJECTS OUTSIDE JAVA, ADVISORY TECHNICAL ASSISTANCE, AND EXPERTS AND EQUIPMENT FOR SUGAR RESEARCH.

5. PROPOSED ADB PROJECT IS PRIMARILY CONCERNED WITH TWO SUGAR FACTORIES AT JATIROTO AND SEMBORO, LOCATED ABOUT 170 KMS. FROM SURABAYA IN EAST JAVA, BUT ALSO COVERS IMPROVEMENT OF OPERATIONAL PERFORMANCE AND FURTHER PROJECT PREPARATION FOR ADDITIONAL FAC-
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TORIES. PROJECT CONSISTS OF (A) EXPANSION OF SUGAR FACTORY AT JATIROTO AND RELATED IRRIGATION, DRAINAGE, FARM MECHANIZATION AND TRANSPORT INVESTMENT; (B) EXPANSION OF SUGAR FACTORY AT SEMBORO AND RELATED TRANSPORT INVESTMENT; (C) CONSULTANT SERVICES FOR PROJECT IMPLEMENTATION, IMPROVEMENT OF OPERATIONAL EFFICIENCY AND FURTHER PROJECT PREPARATION; AND (D) PROVISION OF AGRICULTURAL EXTENSION AND CREDIT SERVICES AND FACILITIES. SUBJECT TO BOARD OF DIRECTORS APPROVAL OF PROPOSED PROJECT, PRESIDENT PLANS TO APPROVE $45,000 ADVISORY TA GRANT TO FINANCE FOREX SERVICES OF EXPATRIATE CONSULTING TTEAM CONSISTING OF COST ACCOUNTANT, SYSTEMS ANALYST AND FINANCIAL MANAGEMENT ADVISOR TO PREPARE STUDIES AND MAKE RECOMMENDATIONS LEADING TO PREPARA-TION OF APPROPRIATE MANUALS ON COST ACCOUNTING AND MANAGEMENT REPORTING SYSTEMS TO BE USED THROUGHOUT ENTIRE SUGAR INDUSTRY, AS EXISTING SYSTEMS ARE INADEQUATE FOR MODERN MANAGE-MENT PLANNING AND CONTROL. PROPOSAL AND DETAILED MANUALS TO BE CONSIDERED BY GOVT, PNP XXIV AND BANK

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INDEX
FILE; TELEGRAM TEXT FOR THIS SEGMENT IS UNAVAILABLE

*** Current Handling Restrictions *** n/a
*** Current Classification *** LIMITED OFFICIAL USE

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# Message Attributes

**Automatic Decaptioning:** X
**Capture Date:** 01 JAN 1994
**Channel Indicators:** n/a
**Current Classification:** UNCLASSIFIED
**Concepts:** DEVELOPMENT LOANS, PROGRAMS (PROJECTS), SUGAR, TECHNICAL ASSISTANCE GRANTS
**Control Number:** n/a
**Copy:** SINGLE
**Draft Date:** 07 NOV 1973
**Decaption Date:** 01 JAN 1960
**Decaption Note:**
**Disposition Action:** RELEASED
**Disposition Approved on Date:**
**Disposition Authority:** collinp0
**Disposition Case Number:** n/a
**Disposition Comment:** 25 YEAR REVIEW
**Disposition Date:** 28 MAY 2004
**Disposition Event:**
**Disposition History:** n/a
**Disposition Reason:**
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**Previous Handling Restrictions:** n/a
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**Review Date:** 21 NOV 2001
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**Review Exemptions:** n/a
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**Subject:** PROPOSED ADB LOANS AND TECHNICAL ASSISTANCE GRANT FOR EAST JAVA SUGAR PROJECT (INDONESIA)
**TAGS:** EAID, EFIN, ID, ADB
**To:** STATE
**Type:** TE
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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